



United States Senate Budget Committee

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Analysis Of CBO Data Shows That Obamacare Will Increase Deficit Over Next Decade

\$300 Billion Swing To Net Deficit Increase

Notwithstanding the numerous budget gimmicks and accounting tricks used in the Democrats' health plan to hide its true cost, the Congressional Budget Office's final cost estimate of the legislation issued in March 2010 concluded that—based on its scoring conventions and assuming the law would be fully implemented as written—the health care-related provisions of the plan would reduce the federal budget deficit by \$124 billion over the FY 2010–2019 period.¹ Since that time, CBO has updated estimates of the cost of the insurance coverage provisions of the law in each of its baseline reports. In addition to those partial updates, on two occasions (February 2011 and July 2012) CBO has produced cost estimates for legislation to fully repeal the law, which provides a close approximation of the total budgetary cost of the law. (See Table 1 for a summary of the CBO estimates.)

The most recent CBO estimate, released in July 2012, indicated the law was projected to reduce the deficit by \$109 billion over the 10-year period from FY 2013–2022. Nevertheless, considerable changes have occurred since then: a botched rollout of the insurance exchanges; unilateral changes made by the Administration to exempt certain groups from complying with key aspects of the law; technical adjustments to CBO's baseline projections for federal health spending; updated economic forecasts; a better understanding of the labor market effects of the legislation; and a new 10-year budget window. Together these changes have significant implications for the sign of the deficit impact of the Democrats' health law. In order to assess how these changes affect the health law's budget impact, Senate Budget Committee (SBC) Republican staff extrapolated CBO's July 2012 cost estimate by two additional years to allow for an analysis over the current 10-year budget window (FY 2015–2024). Staff analysts then accounted for CBO's recent technical and economic baseline adjustments, and applied CBO's published assessment of the law's labor market effects for a current, comprehensive deficit impact. For a summary of those results see Table 2.

A straight extrapolation of CBO's 2012 estimate implies that if nothing had changed since 2012, then the legislation would be projected to reduce the deficit by \$180 billion over the FY 2015–

¹ The health law was estimated to reduce the deficit over the initial 10-year window solely as a result of the \$420 billion net increase in revenues projected over that period. CBO was clear that the law would increase net federal health care spending over the budget window. See Congressional Budget Office, March 20, 2010 letter to the Honorable Nancy Pelosi about the budgetary effects of H.R. 4872, the Reconciliation Act of 2010, Table 1, available at <http://www.cbo.gov/publication/21351>.

2024 period. SBC Republican staff arrived at this figure by making projections for the insurance coverage provisions as well as the other provisions in the law that affect direct spending and revenues based on growth rates derived from CBO's 2012 estimate, and then summing to determine the total net deficit impact of the legislation.

Lower Net Cost Of Coverage Provisions. After extrapolating CBO's 2012 estimate, SBC Republican staff compiled updated estimates for the insurance coverage provisions from CBO's baseline and produced new estimates for the other provisions in the law that affect direct spending and revenues, taking into account the significant changes that have occurred since 2012. The new estimate of the net changes in the deficit from the insurance coverage provisions is taken directly from CBO's *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act* (April 2014).² The \$1,383 billion net deficit effect of those provisions shown in Table 2 is \$83 billion lower than the CBO 2012 extrapolation of \$1,466 billion over the 10-year period. The reduction in the net cost of the coverage provisions is the net effect of lower initial enrollment in exchange-based coverage, changes in health care cost growth assumptions, and lower penalties paid by individuals and employers who do not obtain or provide coverage as a result of specific exemptions given by the Administration, among other smaller factors.

Lower Federal Health Care Savings. SBC Republican staff estimates of the other provisions affecting direct spending were made based on the CBO 2012 extrapolation but were then adjusted downward proportionally to account for a series of technical and economic revisions made by CBO to its baseline projections for Medicare and Medicaid spending since its last cost estimate was produced in 2012. For example, CBO's projection for Medicare and Medicaid spending in year 2020 alone is now 16 percent lower than it projected in 2010 when the health law was debated in Congress.³ CBO accounted for some of the reductions in its Medicare baseline in its 2012 estimate;⁴ however, substantial baseline reductions in both Medicare and Medicaid have been made since then. According to CBO, "During the past several years, health care spending has grown much more slowly both nationally and for federal programs than it did historically and more slowly than CBO projected... In response to the observed slowdown, CBO has made a series of downward adjustments to its projections of spending for Medicare and Medicaid... Those reductions mostly reflect the slower growth in the programs' spending in recent years."⁵ This trend of slower health spending growth has been broad and persistent and is based on data that pre-dates the passage of the health care law.⁶

² Available at <http://www.cbo.gov/publication/45231>.

³ *Revisions to CBO's Projections of Federal Health Care Spending*, July 28, 2014, available at <http://www.cbo.gov/publication/45581>.

⁴ Letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), p. 18, available at <http://www.cbo.gov/publication/43471>.

⁵ *Updated Budget Projections: Fiscal Years 2013 to 2023*, available at <http://www.cbo.gov/publication/44172>.

⁶ See Congressional Budget Office, *The Slowdown in Health Spending*, at <http://www.cbo.gov/publication/44596>. In January 2014, non-partisan actuaries at the Centers of Medicare and Medicaid Services (CMS) explained that the "low rate of increase [in national health spending] followed a steady slowdown that began in 2003" (<http://bit.ly/1rhTu1w>). In addition, in September 2013 the CMS actuaries observed that the recent slowdown in health care spending growth was unrelated to the new health care law and that the law worked against any improvements made to its projections of future health care spending since 2010. See <http://go.cms.gov/1rhToXX>.

CBO's recent baseline changes reduce the amount of projected federal health care savings from the other provisions affecting direct spending in the legislation by a total of \$132 billion over the 10-year period, from \$979 billion under the CBO 2012 extrapolation to \$847 billion based on the SBC staff calculation.

Lower Revenue From Tax Provisions And Reduced Hours Worked. SBC staff estimate that the direct tax provisions included in the health care law will reduce the deficit by \$685 billion over the next 10 years, \$18 billion higher than the CBO 2012 extrapolation of \$667 billion over the 10-year period.⁷ This estimate was derived using the Joint Committee on Taxation's (JCT) detailed revenue projection from 2012, adjusted for changes in the economic forecast.

SBC staff then accounted for the labor market effects of the health care law. In the February 2014 baseline, CBO conducted its first comprehensive analysis of the labor market effects of the law.⁸ CBO's analysis found that by 2024 the equivalent of 2.5 million full-time workers will exit the labor force as a result of the law. CBO estimates the law will reduce the total number of hours worked by 1.5 to 2 percent during the FY 2017–2024 period and will reduce aggregate labor compensation by 1 percent over the same period.

To estimate the lost revenue from the labor market effects of the legislation, SBC Republican staff assumed that like the reduction in aggregate labor compensation, taxable personal income will also be reduced by 1 percent and that this amount would be taxed at the average rate for the population as a percentage of taxable income (approximately 13.5 percent for income taxes and 8.5 percent for Medicare and Social Security taxes). The SBC calculation reveals that the revenue loss due to the labor market effects totals \$280 billion over the 2017–2024 period. Therefore, after accounting for the lost revenue from the labor market effects, the total deficit impact due to the tax increases is \$405 billion over the next 10 years, or \$262 billion lower than the CBO 2012 extrapolation (see Table 2).

Conclusion: Health Law Pushes Deficits Up, Not Down, By \$131 Billion. Altogether, the SBC Republican staff analysis finds that after taking these significant changes since 2012 into account, the Democrats' health care law will *increase* the budget deficit by \$131 billion over the current 10-year budget window (FY 2015–2024). This estimate is arrived at by taking the \$180 billion in projected deficit reduction from the CBO 2012 extrapolation and then accounting for the lower net cost of the coverage provisions (\$83 billion), the lower estimated federal health care savings under the plan (\$132 billion), as well as the lower projected revenue levels when including the labor market effects of the legislation (\$262 billion). The difference between the 2012 extrapolation and the current estimate of the cost of the Democrats' health law amounts to a \$311 billion change in its net deficit impact.

Before a joint session of Congress the President unequivocally stated, "I will not sign a [health care] plan that adds one dime to our deficits, either now or in the future." He repeated: "I will not

⁷ The estimate of the excise tax is included in the net cost of the coverage provisions discussed elsewhere in this report.

⁸ Available at <http://www.cbo.gov/publication/45010>. When Congress was considering the legislation, CBO did not model its labor market impact. In August 2010, after it was signed into law, CBO initially estimated the plan could reduce aggregate labor compensation by about 0.5 percent (<http://www.cbo.gov/publication/21670>).

sign it if it adds one dime to the deficit, now or in the future, period.”⁹ At the signing ceremony for the legislation President Obama asserted that the plan would “lower costs for families and for businesses and for the federal government.” The President also insisted, “It is paid for. It is fiscally responsible. And it will help lift a decades-long drag on our economy.”¹⁰ But contrary to those assertions, the health care law has had a devastating impact on workers, the economy, and the federal budget.

⁹ Available at <http://1.usa.gov/1poHM5q>.

¹⁰ Available at <http://1.usa.gov/1rhRl6l>.

**Table 1. Estimates of the Effects on the Deficit
of the Democrats' Health Law – Changes Since 2012**

	CBO Estimates			CBO 2012 (Extrapolated)
	FY 2010- 2019	FY 2012- 2021	FY 2013- 2022	Total FY 2015-2024, Billions of Dollars
CBO MARCH 2010^a	-124	—	—	—
CBO FEBRUARY 2011^b	—	-210	—	—
CBO JULY 2012^c	—	—	-109	-180 ^d
<i>CHANGES SINCE 2012 AS CALCULATED BY SBC STAFF:</i>				
LOWER NET COST OF INSURANCE COVERAGE PROVISIONS				-83
LOWER FEDERAL HEALTH CARE SAVINGS (DUE TO BASELINE CHANGES UNRELATED TO THE LAW)				+132
LOWER REVENUE FROM TAX PROVISIONS (INCLUDING LABOR MARKET EFFECTS)				+262
NET INCREASE (+) OR DECREASE (-) IN THE DEFICIT				+131

Sources: Congressional Budget Office, Joint Committee on Taxation and Senate Budget Committee (SBC) Republican staff calculations.

Note: Figures listed under CBO 2012 (Extrapolated) are SBC Republican staff calculations based on the Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), <http://www.cbo.gov/publication/43471> and Joint Committee on Taxation, Estimated Revenue Effects of a Proposal to Repeal Certain Tax Provisions Contained in the “Affordable Care Act (‘ACA’)” (June 15, 2012), Table # 12-2046. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

- Congressional Budget Office, letter to the Honorable Nancy Pelosi about the budgetary effects of H.R. 4872, the Reconciliation Act of 2010, Table 1, (March 20, 2010), <http://www.cbo.gov/publication/21351>. The \$124 billion figure above is CBO’s estimate of the deficit effect of the health care and revenue provisions of the law, which excludes the \$19 billion in education savings from provisions in the final reconciliation measure unrelated to the health law. For a detailed table on revenue estimates see Joint Committee on Taxation, Estimated Revenue Effects of the Amendment in the Nature of a Substitute to H.R. 4872, The “Reconciliation Act of 2010,” as amended, in Combination with the Revenue Effects of H.R. 3590, The “Patient Protection and Affordable Care Act (‘PPACA’),” as passed by the Senate (March 20, 2010), JCX-17-10.
- Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 2, the Repealing the Job-Killing Health Care Law Act (February 18, 2011), <http://www.cbo.gov/publication/22027>.
- Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), <http://www.cbo.gov/publication/43471>. For a detailed table on revenue estimates see Joint Committee on Taxation, Estimated Revenue Effects of a Proposal to Repeal Certain Tax Provisions Contained in the “Affordable Care Act (‘ACA’)” (June 15, 2012), Table # 12-2046.
- SBC Republican staff calculation based on CBO July 2012 cost estimate for H.R. 6079. For more details behind the estimate, see Table 2.

**Table 2. Deficit Impact of the Democrats' Health Law – Summary of SBC
2014 Estimate Compared to CBO 2012 Estimate**

	CBO 2012 (Extrapolated)	SBC 2014 Estimate	Difference
Effects on the Federal Deficit, FY 2015-2024 (Billions of Dollars)			
NET CHANGES IN THE DEFICIT FROM INSURANCE COVERAGE PROVISIONS ^{a, b}	+1,466	+1,383	-83
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING DIRECT SPENDING	-979	-847	+132
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING REVENUES ^c	-667	-405	+262
NET INCREASE (+) OR DECREASE (-) IN THE DEFICIT	-180	+131	+311

Sources: Senate Budget Committee (SBC) Republican staff.

Note: Figures listed under CBO 2012 (Extrapolated) are SBC Republican staff calculations based on the Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), <http://www.cbo.gov/publication/43471> and Joint Committee on Taxation, Estimated Revenue Effects of a Proposal to Repeal Certain Tax Provisions Contained in the "Affordable Care Act ('ACA') (June 15, 2012), Table # 12-2046. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

- a. Consistent with CBO, insurance coverage provisions include exchange subsidies and related spending, outlays for the Medicaid and CHIP coverage expansion, small employer tax credits as well as revenues received from penalty payments by uninsured individuals, penalty payments by employers, the excise tax on high-premium insurance plans, and other associated effects on tax revenues and outlays for Social Security benefits.
- b. The \$1,383 billion net change in the deficit from the insurance coverage provisions shown above is CBO's latest detailed estimate of those provisions. See Congressional Budget Office, *Updated Estimates of the Effects of the Insurance Coverage Provisions* (April 2014), Table 1, <http://www.cbo.gov/publication/45231>.
- c. The \$405 billion net change in revenues includes a \$685 billion net increase in revenues from direct tax provisions and a \$280 billion net revenue loss associated with the labor market effects of the legislation. SBC Republican staff estimate of the labor market effect based on Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024*, (February 2014), Appendix C, <http://www.cbo.gov/publication/45010>.

Over \$300 Billion Change In Deficit Impact Of President's Health Law (FY2015-2024)

